

Financial forecasting: riordan manufacturing

[Psychology](#), [Goal](#)



FINANCIAL FORECASTING: RIORDAN MANUFACTURING Introduction Financial forecasting allows financial managers to anticipate events before they occur, particularly the need for raising funds externally. An important consideration is that growth may call for additional sources of financing because profit is often inadequate to cover the net buildup in receivables, inventory, and other asset accounts. When forecasting, one must take into account estimated future levels of receivables, inventory, payables, and other corporate accounts as well as its anticipated profits and borrowing requirements. From this data, collecting financial managers must strategically plan the management of their business or suffer profit loss and financial loss from investors. Shareholders want their wealth to be maximized by the corporation in the future as well as the present. Poor strategic planning will result in investors driving the stock prices of a company down. When companies release their quarterly or annual forecast for profits investors use this information as a tool to invest. Relying on the company to meet their projected forecast or better. When profit warnings are issued at the end of the period investors become nervous and trade their stocks to reduce their risk of loss. With numerous stocks un-purchased, the company loses their capital and in-turn forces the price of the stock to drop. Revenue from profits alone are not enough to sustain a business, companies need to raise capital. By strategically planning on how successfully to meet profit goals and maximize shareholder wealth companies will continue to grow. Riordan Manufacturing is a global plastics manufacturer employing 550 people with projected annual earnings of \$46 million. The company is wholly owned by Riordan Industries, a Fortune 1000 enterprise with

revenues in excess of \$1 billion. Its products include plastic beverage containers produced at its plant in Albany, Georgia, custom plastic parts produced at its plant in Pontiac, Michigan, and plastic fan parts produced at its facilities in Hang Zhou, China. The company's research and development is done at the corporate headquarters in San Jose. Riordan's major customers are automotive parts manufacturers, aircraft manufacturers, the Department of Defense, beverage makers and bottlers, and appliance manufacturers (Riordan, 2007). The data presented in Riordan's Economic Forecast indicates positive economic conditions for Riordan Manufacturing and opportunities. According to the operating and cash budget for 2005 interest expenses were budgeted at a low \$257, 400 for the purpose of an increased spending in research and development expenses of \$903, 000 for the year with capital expenditures of \$250, 000 in October 2004, January 2005, and \$350, 000 in April 2005. Sales, marketing, and other expenses were \$1, 020, 000 indicating Riordan's attempt to leverage relatively low interest rates into new investments to enter new markets and increase productivity. Economic growth is expected to be steady and the inflation rate may decline, and interest rates will increase moderately with \$138, 000 interest income annually. Oil prices are expected to fall, and as a result, reduce transportation and shipping costs. General and administrative expenses for the 2005-operating budget are \$1, 812, 000 with Machining and systems expenses at \$654, 000. The value of the dollar will decline, marginally improving export opportunities. The labor market should strengthen and this will result in larger payrolls nationally and higher labor costs for Riordan Manufacturing, but also will support consumer spending. Riordan's budget

for direct labor was an average of \$2, 216, 224 per month with labor costs remaining level from October of 2004 through March of 2005 then declining slightly for two months and increasing above the average in July of 2005 to \$2, 830, 791 only to decrease once again for the remainder of the fiscal year. The appliance and aircraft markets are expected to continue to be strong. Projections for \$4 million in sales monthly of automobiles suggest consistent sales of automotive parts from October of 2004 to May of 2005, with an expected increase from June through July of over \$5 million then a decreasing trend through September of 2005, annual sales are budgeted for a total of \$50, 264, 021 for the 2005 fiscal year. Riordan Manufacturing should expect pressure from domestic automakers to cut costs. Direct costs of goods are expected to reach \$40, 914, 913 for 2005. Costs are projected to be cut below \$3 million during April and May of 2005 and again in September. Continued sizeable increases in the costs of providing employee benefits are highly likely to continue. Despite this particular issue related to costs, the stable economy described in the forecast should provide at least meet the firm's sales goals. The process of gathering, summarizing, identifying, and communicating non-financial and financial information about an organizations future activity are all parts of the master budgeting process. Budgets are constantly updated to accommodate manager's needs for performance evaluation in some settings such as just in time (JIT) environments. Managers use the budgeting process to identify and allocate the resources necessary to accomplish the goals of the organization through the management cycle by executing, reviewing, and planning accordingly. Budgeting pertains especially to the planning stage. Budgets are a basis to

report the organizations financing, investing, and operating activities that are tied to long-term and short-term plans. Budget information is used to communicate responsibilities to individuals who are accountable for a particular segment of the organization. Performance measures are cautiously chosen to motivate individuals or teams to accomplish targeted goals. Managers can use budget information for benchmarking, problem recognition, and communication in the executing stage of the process. The reviewing stage consists of reviews of timeliness, performance evaluations, and variances in calculations, and continuous improvement solutions. The next stage is the reporting stage, where budgets serve as a reference point for many reports, such as performance reports that support bonuses and promotions. The principles of effective budgeting can be grouped into five categories; long-term goals, short-term goals, human responsibilities, interaction, budget housekeeping, and budget follow-up. Riordan's master budget would consist of several budgets that would consolidate their 2005 financial information into budgeted financial statements. The master budget would include a budgeted income statement, balance sheet budget, cash budget, and capital expenditure budget. Typical operating budgets include a detailed production budget; direct materials purchased budget, sales budget, direct labor budget, selling and administrative expense budget, and a manufacturing overhead budget. At Riordan the 2005 operating budget includes budgets for administrative expenses, production, sales, direct labor, direct materials purchases, manufacturing overhead, and cost of goods manufactured. Riordan's 2005 cash budget is a projection over a specific period of beginning cash, cash receipts, cash payments, ending cash.

Riordan's cash budget was established because the generation of sales and profits does not necessarily ensure there will be adequate cash on hand to meet financial obligations as they come due. The primary purpose of the cash budget is to allow Riordan to anticipate the need for outside funding at the end of each month. A profitable sale may generate accounts receivable in the short run, but no immediate cash to meet maturing obligations. For this reason, Riordan must translate their operating budget into a cash budget to anticipate monthly patterns of cash inflows and outflows. Some months represent particularly high or low sales volumes or may require taxes or capital expenditures. To finish the master budgeting process, Riordan would use information gathered from the master budget to prepare a budgeted balance sheet. A budgeted balance sheet would be used to project the financial status of Riordan. To improve the quality of Riordan's master budget, managers need to know. Why the budget is being prepared? Who will read and use it? How the information will be presented? Where the information can be found? At Riordan, there are two factors for implementing the 2005 fiscal budget, which are communication and support.

Communication of expectations and targets must be effectively communicated to all key personal at Riordan and support from their upper management team to reward employees for meeting the goals in the 2005 master budget. Conclusion In conclusion, for Riordan to meet all 2005 expectations the organization must use responsibility accounting.

Responsibility accounting is an information system that does the following: classifies financial data according to areas of responsibility and reports only controllable cost and revenue information for managers. Responsibility

accounting focuses on the reporting, not on the recording, of information.

References Riordan Manufacturing. (2007). Riordan Manufacturing Intranet.

Apollo Group Inc. Retrieved on June 25, 2007 from <https://ecampus.phoenix.edu/secure/aapd/CIST/VOP/Business/Riordan/RioMfgHome002.htm>